

BUDGET 2007

MANAGING OUR GROWTH

First Quarter Fiscal Update
2007-2008



August 2007

Alberta

UPDATING ALBERTANS

The *First Quarter Fiscal Update* consists of two parts – the updated 2007-08 forecast for the entire fiscal year and the actual results for the first three months of the fiscal year (April 1 to June 30, 2007).

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2007-08 FORECAST

HIGHLIGHTS

- **Revenue** is forecast at \$36.2 billion, an \$830 million increase from the budget estimate. The increase is primarily due to higher personal income taxes, investment income and energy revenue.
- **Expense** is forecast at \$33.7 billion, \$533 million higher than the budget estimate. This includes:
 - \$426 million net increase in capital grants, mainly for maintenance and renewal, affordable housing and cost escalation of approved projects;
 - \$126 million increase in disaster/emergency assistance for floods and forest fires;
 - \$24 million net increase in operating expense, mainly in dedicated revenue/expense; less,
 - a \$43 million decrease in natural gas rebates.
- **Surplus** (net revenue) is forecast at \$2.5 billion. After various cash and other adjustments, \$575 million in cash is forecast to be available for allocation from the increased surplus: \$383 million to the Capital Account and \$192 million to be deposited in the Heritage Fund.
- **Capital Plan.** Better-than-expected 2006-07 fourth quarter results have enabled additional capital commitments. Including a net \$16 million reduction in capital investment, 2007-08 capital spending has been increased by \$410 million from budget.
- **Sustainability Fund.** The forecast allocations are \$915 million to the Heritage Fund and other endowment funds, up \$481 million from budget, and \$838 million to the Capital Account.
- After these allocations, Sustainability Fund assets are forecast at \$7.7 billion, \$5.2 billion higher than the minimum target of \$2.5 billion.

FISCAL SUMMARY^a

(millions of dollars)

		2007-08	
		1st Quarter Forecast	Change from Budget
	Budget		
1 Revenue	35,332	36,162	830
Expense			
Program expense			
2 Operating expense	27,023	27,047	24
3 Capital grants	4,739	5,165	426
4 Disaster/emergency/natural gas rebates	527	610	83
5 Capital amortization and nominal sum disposals	625	625	-
6 Debt servicing costs	235	235	-
7 Total Expense^b	33,149	33,682	533
8 Net Revenue (surplus)	2,183	2,480	297
9 Transfer from Capital Account for capital grants	2,564	3,002	438
10 Net transfer from (to) Sustainability Fund	(4,433)	(5,160)	(727)
11 Contingency Allowance	314	322	8
12 Net Revenue (Surplus)	2,183	2,480	297
13 Cash from 2006-07	-	682	682
14 Contingency Allowance	(314)	(322)	(8)
15 Retained income of funds and agencies	(365)	(345)	20
16 Other cash adjustments/requirements ^c	(1,070)	(1,197)	(127)
17 Net amount available for allocation	434	1,298	864
Allocation			
18 Heritage Fund inflation-proofing	284	346	62
19 Medical Research Endowment Fund	150	150	-
20 Scholarship Fund (2006-07 fourth quarter allocation)	-	227	227
21 Forecast cash available for allocation from increased surplus	-	575	575
22 Total Allocation	434	1,298	864

a Subject to the *Fiscal Responsibility Act*. Does not include changes in equity of Crown-controlled SUCH sector organizations or in pension obligations.

b Capital investment (not included in expense):

1,964 1,948 (16)

c Adjusts Net Revenue to cash available for allocation from the Sustainability Fund. The first quarter forecast includes: \$486 million in cash adjustments primarily related to natural gas royalties; \$1,137 million in capital investment cash requirements; less a \$426 million net withdrawal from the Capital Account, which includes the \$455 million allocation from the 2006-07 fourth quarter results, but is prior to the \$383 million forecast allocation from the increased 2007-08 surplus (in line 21). Further details are provided on pages 6, 8 and 9.

REVENUE

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast at \$10.5 billion, \$237 million higher than the budget estimate. Increases in conventional oil and oil sands royalties are partially offset by lower revenue from land sales and natural gas and by-products royalties.

Natural gas royalties are forecast at \$5.9 billion, \$123 million lower than budgeted. Natural gas prices are forecast to average Cdn\$6.50 per gigajoule (GJ), 25 cents less than the budget estimate, due to record gas storage levels, a lack of tropical storm activity in the Gulf of Mexico and the impact of the higher Canadian/U.S. dollar exchange rate. The drop in revenue from the lower price is offset partially by a higher forecast for conventional gas production. Year-to-date (April to August), natural gas prices have averaged about \$6.09/GJ, and are expected to average about \$6.79/GJ for the rest of the fiscal year.

Total **oil royalties** are forecast at \$3.4 billion, \$505 million higher than budgeted. Oil prices are forecast to average US\$64 per barrel, up \$6 from the budget estimate, reflecting strong global economic growth and increased demand, lower-than-expected supply increases, and higher risk premiums associated with possible supply disruptions. In addition, conventional oil production is expected to be higher than forecast. The impact on revenue of the higher price and conventional production is offset slightly by the higher exchange rate forecast. Year-to-date (April to August), oil prices have averaged about US\$67.77 per barrel, and are expected to average about US\$61.31 per barrel for the rest of the fiscal year.

Revenue from **bonuses and sales of Crown leases** is forecast at \$1.1 billion, \$144 million less than budgeted, reflecting lower-than-expected conventional oil and gas land sales and prices per hectare, partly offset by higher oil sands land sales.

The *Fiscal Responsibility Act* requires non-renewable resource revenue above \$5.3 billion be transferred to the Sustainability Fund. This transfer is forecast at \$5.2 billion.

TAX REVENUE

Personal income tax revenue is forecast at \$7.7 billion, \$411 million higher than the budget estimate. Stronger-than-expected personal income growth in 2006 and 2007 increases the current-year forecast and results in a \$64 million prior year adjustment related to 2006-07.

Corporate income tax revenue is forecast at \$3.1 billion, unchanged from budget.

Other tax revenue is forecast at \$3.6 billion, \$22 million higher than budgeted. Higher volumes have increased the forecast for fuel and insurance taxes, and the tourism levy, but the increases have been partly offset by lower freehold mineral rights tax revenue due to lower-than-expected gas prices and production.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are forecast at \$3.5 billion, \$192 million lower than budgeted. Health transfers have decreased by a net \$201 million: higher income tax revenue in 2006-07 reduces the 2007-08 entitlement and requires a negative prior year adjustment related to 2006-07, but these are slightly offset by a \$10 million increase related to the Patient Wait Times Guarantee Trust.

Other transfers are \$9 million higher than budgeted, mainly from an upward revision to Alberta's population and from changes to the federal-provincial cost-sharing formula for crop insurance premiums.

INVESTMENT INCOME

Investment income is forecast at \$2.8 billion, \$257 million higher than the budget estimate. This revised forecast takes into account a number of factors, including stronger-than-expected equity market performance in the first quarter, increased interest rates, higher-than-budgeted balances in some funds and accounts, and the volatile market environment to the end of July 2007. During July, most public equity markets in Canadian dollar terms were weaker and fixed income markets were flat as global financial markets became more cautious in reaction to the decline in the U.S. residential home sector.

OTHER REVENUE

Total other revenue is forecast at \$4.9 billion, \$95 million higher than budgeted:

- \$60 million increase in health care insurance premiums based on a higher-than-expected number of registrants;
- \$20 million increase in gaming and lottery revenue due to higher casino activity;
- \$16 million increase in motor vehicle licences revenue due to a higher-than-expected number of vehicle registrations;
- \$31 million decrease in crop and hail insurance premiums revenue due to lower participation;
- \$30 million increase in other miscellaneous revenue.

REVENUE*(millions of dollars)*

	2007-08			
	Budget	1st Quarter Forecast	Change from Budget	Main Reasons for Change from Budget
Income Taxes				
Personal income tax	7,318	7,729	411	Stronger personal income growth
Corporate income tax	3,126	3,126	-	
	10,444	10,855	411	
Other Taxes				
School property tax	1,378	1,378	-	
Tobacco tax	890	890	-	
Fuel tax	720	755	35	Better-than-expected prior year results
Freehold mineral rights tax	333	314	(19)	Lower natural gas price and production
Insurance taxes	244	246	2	Higher 2006 cash receipts
Tourism levy	65	69	4	Better-than-expected prior year results
	3,630	3,652	22	
Non-Renewable Resource Revenue				
Natural gas and by-products royalty	6,023	5,900	(123)	Lower natural gas price
Crude oil royalty	1,060	1,147	87	Higher oil price / production
Synthetic crude oil and bitumen royalty	1,795	2,213	418	Higher oil price
Coal royalty	15	16	1	
Bonuses and sales of Crown leases	1,214	1,070	(144)	Lower price per hectare / fewer hectares sold
Rentals and fees	153	151	(2)	Fewer hectares sold
	10,260	10,497	237	
Transfers from Government of Canada				
Health transfers	1,828	1,627	(201)	Higher income tax revenue
Canada Social Transfer	924	932	8	Population growth
Agriculture support programs	329	336	7	Changes to cost-sharing formula
Other	634	628	(6)	Miscellaneous changes
	3,715	3,523	(192)	
Net Income from Commercial Operations				
Alberta Gaming and Liquor Commission:				
Gaming and lottery revenue	1,448	1,468	20	Higher casino activity level
Liquor revenue	642	642	-	
Alberta Treasury Branches	262	262	-	
Other	6	6	-	
	2,358	2,378	20	
Investment Income				
Alberta Heritage Savings Trust Fund	1,219	1,339	120	Strong first quarter equity markets
Endowment Funds:				
Medical Research	100	115	15	Strong first quarter equity markets
Science and Engineering Research	56	57	1	Strong first quarter equity markets
Scholarship	42	55	13	Strong first quarter equity markets / higher balance
Alberta Capital Finance Authority	295	295	-	
Agriculture Financial Services Corporation	101	105	4	Higher fund balances
Sustainability Fund	275	295	20	Higher interest rates
Debt Retirement Account	81	85	4	Higher interest rates
Capital Account	210	240	30	Higher asset balance and interest rates
Other	121	171	50	Higher asset balances and interest rates
	2,500	2,757	257	
Premiums, Fees and Licences				
Health care insurance premiums	919	979	60	Increased registrants
Motor vehicle licences	332	348	16	Increase in vehicle registrations
Crop and hail insurance premiums	181	150	(31)	Lower participation
Timber rentals and fees	40	40	-	
Land titles	70	72	2	Stronger-than-expected real estate market
Other	334	335	1	Revised forecast
	1,876	1,924	48	
Other				
Refunds of expense	100	103	3	Revised forecast
Fines and penalties	95	96	1	Revised forecast
Miscellaneous	354	377	23	Miscellaneous changes
	549	576	27	
Total Revenue	35,332	36,162	830	

EXPENSE

TOTAL EXPENSE

Total expense is \$533 million higher than the budget estimate:

- \$426 million increase in capital grants funded from the Capital Account;
- \$126 million additional disaster/emergency assistance funded from the Sustainability Fund;
- \$20 million net increase in dedicated revenue/expense;
- \$4 million net increase in other program expense; less,
- a \$43 million lapse in the Natural Gas Rebate program.

SUSTAINABILITY FUND

Disaster/Emergency Assistance – \$126 million is being provided: \$86 million for forest fire-fighting costs and \$40 million for flood disaster assistance.

Natural Gas Rebates – \$434 million in natural gas rebates are now expected to be paid, \$43 million less than budgeted, due to the lower natural gas price forecast.

CAPITAL ACCOUNT

Capital grants funded from the Capital Account have been increased by \$426 million:

- \$287 million for capital maintenance and renewal projects in schools, post-secondary and health facilities, government buildings, and on provincial highways;
- \$96 million for affordable housing projects announced in April;
- \$30 million for upgrading utility services at the University of Alberta;
- \$25 million for cost escalation on Rural Affordable Supportive Living projects; less,
- a net \$12 million reduction in other capital expense.

FUNDING FROM THE CONTINGENCY ALLOWANCE

The \$314 million set aside as a Contingency Allowance in *Budget 2007*, for in-year, non-emergency operating spending or revenue reduction initiatives, has increased to \$322 million. The net \$8 million increase to the Contingency Allowance reflects an increase of \$12 million in operating expense offset by a \$12 million lapse in capital grants in Infrastructure and Transportation, and a net \$8 million in other operating expense lapses.

MINISTRY EXPENSE CHANGES

Advanced Education and Technology – \$141 million net increase, consisting of \$111 million for capital maintenance and renewal projects and \$30 million for the University of Alberta utility system.

Education – \$107 million net increase, comprising \$97 million for capital maintenance and renewal grants, and \$10 million for French Language programs fully funded by a federal transfer.

Health and Wellness – \$63 million net increase, due to a \$53 million increase in capital maintenance and renewal grants and a \$10 million increase under the federal Patient Wait Times Guarantee Trust funded by equivalent revenue drawn from the trust.

Infrastructure and Transportation – \$21 million net decrease:

- \$23 million increase in municipal capital grants;
- \$23 million increase for capital maintenance and renewal projects;
- \$12 million increase in operating expense, mainly for improvements to government-owned facilities;
- \$9 million increase in nominal sum disposals to transfer the Claresholm Care Centre to the Calgary Health Region; less,
- \$43 million lapse in expected natural gas rebates;
- \$36 million lapse in capital grants under the Canada-Alberta Municipal Rural Infrastructure Fund;
- \$9 million lapse in amortization expense.

Municipal Affairs and Housing – \$139 million net increase, reflecting \$96 million in affordable housing grants announced in April, \$40 million for flood disaster assistance and \$3 million for maintenance and renewal grants.

Seniors and Community Supports – \$25 million increase to address cost escalation on Rural Affordable Supportive Living projects.

Sustainable Resource Development – \$86 million in emergency funding for forest fire-fighting.

Other Ministries – \$7 million net decrease, consisting of a \$5 million reduction in reinsurance premiums from lower crop insurance participation and a \$2 million reduction mainly due to lower unfunded liabilities in the provincial judges' pension plan.

EXPENSE SUMMARY

(millions of dollars)

	2007-08		
	Budget	1st Quarter Forecast	Change from Budget
Program Expense			
Operating expense ^a	27,023	27,027	4
Capital grants ^b	4,739	5,165	426
Natural gas rebates	477	434	(43)
Disaster/emergency assistance	50	176	126
Capital amortization and nominal sum disposals	625	625	-
Dedicated revenue/expense increases/(decreases) ^c	-	20	20
Total Program Expense	32,914	33,447	533
Debt Servicing Costs	235	235	-
Total Expense	33,149	33,682	533

- a The \$4 million net increase in operating expense includes a \$12 million increase funded by a transfer from budgeted capital grants, and a net \$8 million in other operating lapses.
- b The increase in capital grants is \$438 million less \$12 million transferred to operating expense. As a result, the transfer from the Capital Account for current-year capital grants has increased \$438 million.
- c Dedicated revenue/expense changes – Education: \$10.3 million for French Language programs; Health and Wellness: \$10 million from the Patient Wait Times Guarantee Trust.

EXPENSE BY MINISTRY

(millions of dollars)

	2007-08			Main Reasons for Change from Budget
	Budget ^a	1st Quarter Forecast	Change from Budget	
Program				
Legislative Assembly	93	93	-	
Advanced Education and Technology	3,102	3,243	141	Capital maintenance and renewal
Agriculture and Food	1,026	1,021	(5)	Reduced reinsurance premiums
Children's Services	972	972	-	
Education	5,625	5,732	107	Capital maintenance and renewal
Employment, Immigration and Industry	853	853	-	
Energy	300	300	-	
Environment	164	164	-	
Executive Council	23	23	-	
Finance	645	645	-	
Health and Wellness	12,054	12,117	63	Capital maintenance and renewal
Infrastructure and Transportation	3,086	3,065	(21)	Lower forecast for rebates
International, Intergovernmental and Aboriginal Relations	68	68	-	
Justice	382	380	(2)	Lower pension unfunded liability
Municipal Affairs and Housing	837	976	139	Affordable housing / flood disaster assistance
Seniors and Community Supports	1,765	1,790	25	Rural Affordable Supportive Living projects
Service Alberta	279	279	-	
Solicitor General and Public Security	512	512	-	
Sustainable Resource Development	353	439	86	Forest fire-fighting costs
Tourism, Parks, Recreation and Culture	756	756	-	
Treasury Board	19	19	-	
Total Program Expense	32,914	33,447	533	
Debt Servicing Costs	235	235	-	
Total Expense	33,149	33,682	533	

- a Budget numbers have been restated to reflect transfers for 'capital for emergent projects' totalling \$26.6 million, and transfers for capital project planning totalling \$5.4 million, from Infrastructure and Transportation to other ministries.

ALBERTA SUSTAINABILITY FUND

TRANSFERS AND ADJUSTMENTS

The *Fiscal Responsibility Act* requires non-renewable resource revenue above \$5.3 billion and increases in other revenue, less certain adjustments, to be transferred to the Sustainability Fund. Withdrawals are permitted for costs of disasters/emergencies and natural gas rebates.

These transfers are forecast at a net \$5.9 billion, comprising \$5.2 billion in non-renewable resource revenue, \$573 million net increase in other revenue, \$682 million in cash transferred from the 2006-07 surplus, less \$610 million in withdrawals for natural gas rebates and disasters/emergencies.

The amount of cash available for allocation also depends on adjustments for differences between accrued revenue and cash receipts, non-cash expenses and transfers not reported on the income statement. A net \$4.5 billion in negative adjustments are forecast, consisting of \$486 million in negative cash adjustments (primarily related to natural gas royalties), \$345 million of income

retained by various funds and agencies, and \$3.7 billion in net capital cash requirements.

ALLOCATION OF AVAILABLE ASSETS

Fund assets in excess of \$2.5 billion can be allocated to other balance sheet improvements. In addition, the new in-year surplus allocation policy introduced with *Budget 2007* requires cash available from an increased surplus to be allocated 1/3 to savings and 2/3 to capital.

Forecast allocations are:

- \$346 million Heritage Fund inflation-proofing;
- \$150 million to the Medical Research Endowment Fund;
- \$227 million to the Scholarship Fund from the 1/3 allocation of 2006-07 fourth quarter results; and
- \$575 million for the new in-year surplus allocation policy.

After these allocations, total assets of the Fund remain at \$7.7 billion, \$5.2 billion more than the \$2.5 billion required minimum balance.

ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2007-08		
	Budget ^a	1st Quarter Forecast	Change from Budget
Assets at Start of Year	7,653	7,653	-
Transfers to (withdrawals from) the Sustainability Fund			
Cash transferred from 2006-07 fourth quarter results ^b	-	682	682
Non-renewable resource revenue transfer from general revenue	4,960	5,197	237
Withdrawals for disaster/emergency/natural gas rebates	(527)	(610)	(83)
Other net transfers	-	573	573
Total transfers to Sustainability Fund	4,433	5,842	1,409
Adjustments			
Cash adjustments ^c	(376)	(486)	(110)
Retained income of funds and agencies ^d	(365)	(345)	20
Capital investment cash requirements	(1,153)	(1,137)	16
Cash transferred to Capital Account for current-year capital grants	(2,564)	(3,002)	(438)
Draw down of Capital Account balance ^e	459	426	(33)
Total adjustments	(3,999)	(4,544)	(545)
Assets prior to allocation	8,087	8,951	864
Allocation to:			
Heritage Fund - inflation-proofing	(284)	(346)	(62)
Medical Research Endowment Fund	(150)	(150)	-
Scholarship Fund (2006-07 fourth quarter allocation)	-	(227)	(227)
Forecast cash available for allocation from increased surplus	-	(575)	(575)
Assets at End of Year	7,653	7,653	-
Assets at end of year above \$2.5 billion	5,153	5,153	-

a Budget numbers have been restated to reflect 2006-07 actual results.

b The cash from the higher-than-forecast 2006-07 fourth quarter results was transferred into the Sustainability Fund in 2007-08.

c Due primarily to cash adjustments for natural gas royalties.

d Due primarily to retained income of Alberta Treasury Branches, Agriculture Financial Services Corporation and endowment funds.

e Net amount withdrawn from Capital Account after current-year allocations and withdrawals. Includes the \$455 million allocation from the 2006-07 fourth quarter results, but is prior to the \$383 million forecast allocation from the increased 2007-08 surplus.

CAPITAL PLAN

2007-08 capital spending, including capital investment in provincial government-owned assets and capital expense for grants to local authorities and other infrastructure support, is forecast at \$7.1 billion, up a net \$410 million from budget. This includes a net \$426 million higher capital expense and a net \$16 million lower capital investment.

The increase is primarily funded from the allocation to the Capital Account of \$455 million of the better-than-forecast 2006-07 fourth quarter results and mainly relates to maintenance and renewal, and affordable housing.

- **Municipal Infrastructure Support** – \$1.4 billion, \$12 million less than the budget estimate. A \$36 million lapse in the Canada-Alberta Municipal Rural Infrastructure Fund is offset by increases for the Alberta Cities Transportation Partnerships program and several highway improvement grants.
- **Provincial Highway Network** – \$1.3 billion, \$56 million less than budgeted. A \$158 million lapse is partly offset by increases of \$57 million to carry-over unfinished 2006-07 projects, \$42 million for an Edmonton ring road land purchase and \$3 million for maintenance and renewal.
- **Health Facilities and Equipment** – \$1.3 billion, \$62 million higher than the budget estimate, reflecting \$53 million for maintenance and renewal and \$9 million transferred from Capital for Emergent Projects.
- **Post-secondary Facilities** – \$898 million, a \$151 million increase from budget, consisting of \$111 million for maintenance and renewal, \$30 million for cost escalation on the U. of A. utility system expansion and \$10 million transferred from Capital for Emergent Projects.
- **Schools** – \$611 million, \$103 million higher than the budget estimate, comprising \$97 million for maintenance and renewal and \$6 million transferred from Capital for Emergent Projects.
- **Community Facilities** – \$455 million, an increase of \$48 million from budget, reflecting \$29 million for maintenance and renewal, \$12 million to carry-over unfinished 2006-07 projects, and \$7 million in other projects and transfers from Capital for Emergent Projects and operating expense.
- **Water and Wastewater Management** – \$211 million, \$2 million higher than budgeted, to carry-over unfinished 2006-07 projects.
- **Housing, Government Facilities and Equipment, and Other Capital** – \$796 million, \$131 million higher than budget. Increases of \$96 million for affordable housing, \$25 million for Rural Affordable Supportive Living project cost escalation, \$23 million for maintenance and renewal, \$9 million to carry-over unfinished 2006-07 projects, and \$17 million in other projects, are partly offset by a \$39 million lapse.
- **Capital for Emergent Projects** – \$147 million, down a net \$19 million, as \$27 million in reallocations to other functions are partially offset by an \$8 million carry-over for unfinished 2006-07 projects.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2007-08		
	Budget	1st Quarter Forecast	Change from Budget
Municipal infrastructure support	1,402	1,390	(12)
Provincial highway network	1,379	1,323	(56)
Health facilities and equipment	1,220	1,282	62
Post-secondary facilities	747	898	151
Schools	508	611	103
Community facilities	407	455	48
Water and wastewater management	209	211	2
Housing, government facilities and equipment, and other capital	665	796	131
Capital for emergent projects	166	147	(19)
Total Capital Plan	6,703	7,113	410
To be funded by			
Current-year revenue	2,784	2,772	(12)
Capital Account	3,717	4,139	422
Alternative financing including P3s	202	202	-
Total Capital Plan	6,703	7,113	410

NET FINANCIAL AND CAPITAL ASSETS

- **Net Assets** – Net assets at March 31, 2008 are forecast at \$45.2 billion, including capital assets of \$13.7 billion.
- **Heritage Fund** – The forecast book value of *Heritage Fund* external assets is \$15.6 billion, \$538 million higher than March 31, 2007, and \$254 million higher than budget. The increase from budget reflects a \$62 million higher inflation-proofing requirement and a forecast \$192 million deposit under the new in-year surplus allocation policy.
- **Endowment and Other Funds** – Total assets are forecast at \$3.9 billion, up \$403 million from March 31, 2007 and \$257 million from budget. The increases primarily reflect the \$150 million budgeted deposit to the Medical Research Endowment Fund, and the \$227 million allocation to the Scholarship Fund from the 2006-07 fourth quarter results.
- **Accumulated Debt/Debt Retirement Account** – Sufficient funds are available in the Account to repay the remaining accumulated debt as it matures.

- **Capital Account** – Assets are forecast at \$6 billion, down \$43 million from March 31, 2007, but \$416 million higher than budget.

A \$455 million allocation from the 2006-07 fourth quarter results has been mostly offset by increased withdrawals of \$438 million to fund higher capital grants in 2007-08. The new in-year surplus allocation policy also allocates 2/3 of cash available from an increase to the surplus to the Capital Account. This allocation is forecast at \$383 million.

The *Balance Sheet* and *Capital Account* tables (pages 8, 9) reflect the impact of this \$383 million forecast deposit, showing the net withdrawal from the Capital Account for 2007-08 as \$43 million. However, the *Sustainability Fund* and *Fiscal Summary* tables (pages 1, 6) reflect the net withdrawal from the Capital Account as \$426 million, prior to this forecast allocation, to show total cash available for allocation from the increased 2007-08 surplus.

BALANCE SHEET (at March 31)

(millions of dollars)

	2007 Actual	2008			
		Budget ^a	1st Quarter Forecast	Change from Budget	2007 Actual
Financial Assets					
Heritage Fund external investments	15,028	15,312	15,566	254	538
Self-supporting lending organizations	7,271	8,207	7,936	(271)	665
Alberta Sustainability Fund	7,653	7,653	7,653	-	-
Endowment funds ^b	3,448	3,594	3,851	257	403
Capital Account	6,091	5,632	6,048	416	(43)
Debt Retirement Account	2,035	1,789	1,789	-	(246)
Other financial assets	9,488	10,450	9,568	(882)	80
Total Financial Assets	51,014	52,637	52,411	(226)	1,397
Liabilities					
Accumulated debt	2,030	1,784	1,784	-	(246)
Pension obligations	5,593	5,710	5,710	-	117
Self-supporting lending organizations	6,661	7,498	7,248	(250)	587
Other liabilities	6,276	7,658	6,104	(1,554)	(172)
Total Liabilities	20,560	22,650	20,846	(1,804)	286
Net Financial Assets	30,454	29,987	31,565	1,578	1,111
Capital assets and inventories of supplies	12,429	13,784	13,681	(103)	1,252
Net Assets	42,883	43,771	45,246	1,475	2,363
Adjustment for pension obligations	5,593	5,710	5,710	-	117
Net Assets for Fiscal Policy Purposes^c	48,476	49,481	50,956	1,475	2,480

^a Budget numbers have been restated to reflect 2006-07 actual results.

^b Includes the Medical Research Endowment Fund, Science and Engineering Research Endowment Fund, Scholarship Fund, Alberta Cancer Prevention Legacy Fund and Energy Innovation Fund.

^c Under the *Fiscal Responsibility Act*. Excludes pension obligations and change in equity of Crown-controlled SUCH sector organizations.

CAPITAL ACCOUNT*(millions of dollars)*

	2006-07	2007-08			
		Budget ^a	1st Quarter Forecast	Change from Budget	2006-07 Actual
Assets at Start of Year	4,243	6,091	6,091	-	1,848
Allocations to Capital Account:					
For current-year use	3,200	2,258	2,258	-	(942)
For future-year use	1,848	-	-	-	(1,848)
For cost escalation	-	1,000	1,000	-	1,000
From 2006-07 fourth quarter results	-	-	455	455	455
From forecast increase to 2007-08 surplus	-	-	383	383	383
Total Allocations	5,048	3,258	4,096	838	(952)
Withdrawals					
Capital grants to local authorities	(2,508)	(2,564)	(3,002)	(438)	(494)
Government-owned capital investment	(692)	(1,153)	(1,137)	16	(445)
Total withdrawals	(3,200)	(3,717)	(4,139)	(422)	(939)
Assets at End of Year	6,091	5,632	6,048	416	(43)

a Budget numbers have been restated to reflect 2006-07 actual results.

NET FINANCING REQUIREMENTS*(millions of dollars)*

	2007-08		
	Budget	1st Quarter Forecast	Change from Budget
Requirements:			
General Revenue Fund term debt maturities	166	166	-
School construction loan repayments	59	59	-
Alberta Social Housing Corporation debt repayment	21	21	-
Accumulated debt financing requirements	246	246	-
Agriculture Financial Services Corporation's term borrowing requirements	300	300	-
Gross financing requirements	546	546	-
Cash applied to accumulated debt repayment	(246)	(246)	-
Net Term Debt Financing Requirements	300	300	-
Term debt financing completed to date	-	-	-

2007-08 FISCAL YEAR ASSUMPTIONS AND SENSITIVITIES^a

	Sensitivities (\$ millions)				Assumptions	
	Annual Change	Revenue	Spending	Net Change	Budget	1st Quarter Forecast
Oil Price (WTI US\$/bbl)	-\$1.00	-139	-	-139	58.00	64.00
Natural Gas Price (Cdn\$/GJ)	-10¢	-98	-	-98	6.75	6.50
Exchange Rate (US¢/Cdn\$)	+1¢	-123	-	-123	86.00	93.00
Interest Rates:	+1%	-227	+5	-232		
3-month Canada treasury bills					4.05	4.45
10-year Canada bonds					4.25	4.60
Personal income(\$million)	-100	-6	-	-6	149,337	153,700
Corporate profits(\$million)	-100	-8	-	-8	56,525	50,259

a Sensitivities based on prices and rates forecast at budget.

CAPITAL INVESTMENT AND AMORTIZATION^a

(millions of dollars)

	2007-08			2007-08		
	Capital Investment			Capital Amortization		
	Budget	1st Quarter Forecast	Change from Budget	Budget	1st Quarter Forecast	Change from Budget
Legislative Assembly	2	2	-	1	1	-
Advanced Education and Technology	11	11	-	8	8	-
Agriculture and Food	15	15	-	12	12	-
Children's Services	10	10	-	3	3	-
Education	1	1	-	1	1	-
Employment, Immigration and Industry	4	4	-	3	3	-
Energy	18	18	-	16	16	-
Environment	2	2	-	21	21	-
Executive Council	-	-	-	-	-	-
Finance	6	8	2	8	8	-
Health and Wellness	74	74	-	54	54	-
Infrastructure and Transportation	1,695	1,629	(66)	337	328	(9)
International, Intergovernmental and Aboriginal Relations	-	-	-	-	-	-
Justice	4	4	-	8	8	-
Municipal Affairs and Housing	1	1	-	26	26	-
Seniors and Community Supports	1	1	-	1	1	-
Service Alberta	41	41	-	40	40	-
Solicitor General and Public Security	24	33	9	1	1	-
Sustainable Resource Development	32	33	1	12	12	-
Tourism, Parks, Recreation and Culture	23	61	38	14	14	-
Treasury Board	-	-	-	-	-	-
Total Capital Investment/Amortization	1,964	1,948	(16)	566	557	(9)
Funded from the Capital Account	1,153	1,137	(16)	-	-	-
Alternatively financed	202	202	-	-	-	-

a Capital Investment includes purchases of inventory. Capital Amortization includes consumption of inventories.

CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT^a

(millions of dollars)

	2007-08		
	Budget ^b	1st Quarter Forecast	Change from Budget
Advanced Education and Technology	753	894	141
Agriculture and Food	30	30	-
Education	514	612	98
Employment, Immigration and Industry	8	8	-
Energy	2	2	-
Environment	1	1	-
Finance	4	4	-
Health and Wellness	1,155	1,208	53
Infrastructure and Transportation	1,476	1,487	11
Municipal Affairs and Housing	456	554	98
Seniors and Community Supports	30	55	25
Solicitor General and Public Security	5	5	-
Tourism, Parks, Recreation and Culture	305	305	-
Total	4,739	5,165	426
Funded from the Capital Account	2,564	3,002	438

a Included in program expense. Includes provincial highway rehabilitation, project planning and other capital expense.

b Budget numbers have been restated to reflect transfers for 'capital for emergent projects' totalling \$26.6 million, and transfers for capital project planning totalling \$5.4 million, from Infrastructure and Transportation to other ministries.

ACTUAL RESULTS

FOR THE FIRST THREE MONTHS OF 2007-08

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2007*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are consolidated on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to those entities.

The accounts of Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes and regional health authorities that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are included in the consolidated financial statements forming part of the Government of Alberta Annual Report.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and net revenue.

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue. Revenue excludes the change in equity in Crown-controlled SUCH sector organizations.

Expense includes the province's cash payments towards the unfunded pension obligations. Expense excludes the change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

Debt servicing costs include interest payable and amortization of discount on debt issues.

Comparative 2006-07 figures have been restated where necessary to conform to the 2007-08 presentation.

CONSOLIDATED FISCAL SUMMARY^a

for the three months ended June 30, 2007

(millions of dollars)

	First Three Months		
	2007-08	2006-07	Change
Revenue			
Income taxes	2,714	2,327	387
Other taxes	883	840	43
Non-renewable resource revenue	2,680	3,604	(924)
Transfers from Government of Canada	720	836	(116)
Net income from commercial operations	646	605	41
Premiums, fees and licences	627	592	35
Investment income	983	430	553
Other	131	113	18
Total Revenue	9,384	9,347	37
Expense			
Program	6,600	6,304	296
Debt servicing costs	51	52	(1)
Total Expense	6,651	6,356	295
Net Revenue	2,733	2,991	(258)

- ^a Includes the province's cash payments towards the unfunded pension liability, which will be eliminated over a longer term under a separate legislated plan. Does not include the change in equity in Crown-controlled SUCH sector organizations, and the change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

EXPENSE

for the three months ended June 30, 2007

(millions of dollars)

	First Three Months		
	2007-08	2006-07	Change
Program			
Legislative Assembly	18	21	(3)
Advanced Education and Technology	583	429	154
Agriculture and Food	97	116	(19)
Children's Services	233	223	10
Education	1,206	1,148	58
Employment, Immigration and Industry	191	176	15
Energy	51	46	5
Environment	34	33	1
Executive Council	5	5	-
Finance	148	132	16
Health and Wellness	2,480	2,329	151
Infrastructure and Transportation	557	650	(93)
International, Intergovernmental and Aboriginal Relations	13	24	(11)
Justice	89	82	7
Municipal Affairs and Housing	128	95	33
Seniors and Community Supports	403	378	25
Service Alberta	45	65	(20)
Solicitor General and Public Security	102	94	8
Sustainable Resource Development	116	135	(19)
Tourism, Parks, Recreation and Culture	99	121	(22)
Treasury Board	2	2	-
Total Program Expense	6,600	6,304	296
Debt servicing costs	51	52	(1)
Total Expense	6,651	6,356	295

